



# INTRODUCTION TO CITY FINANCES

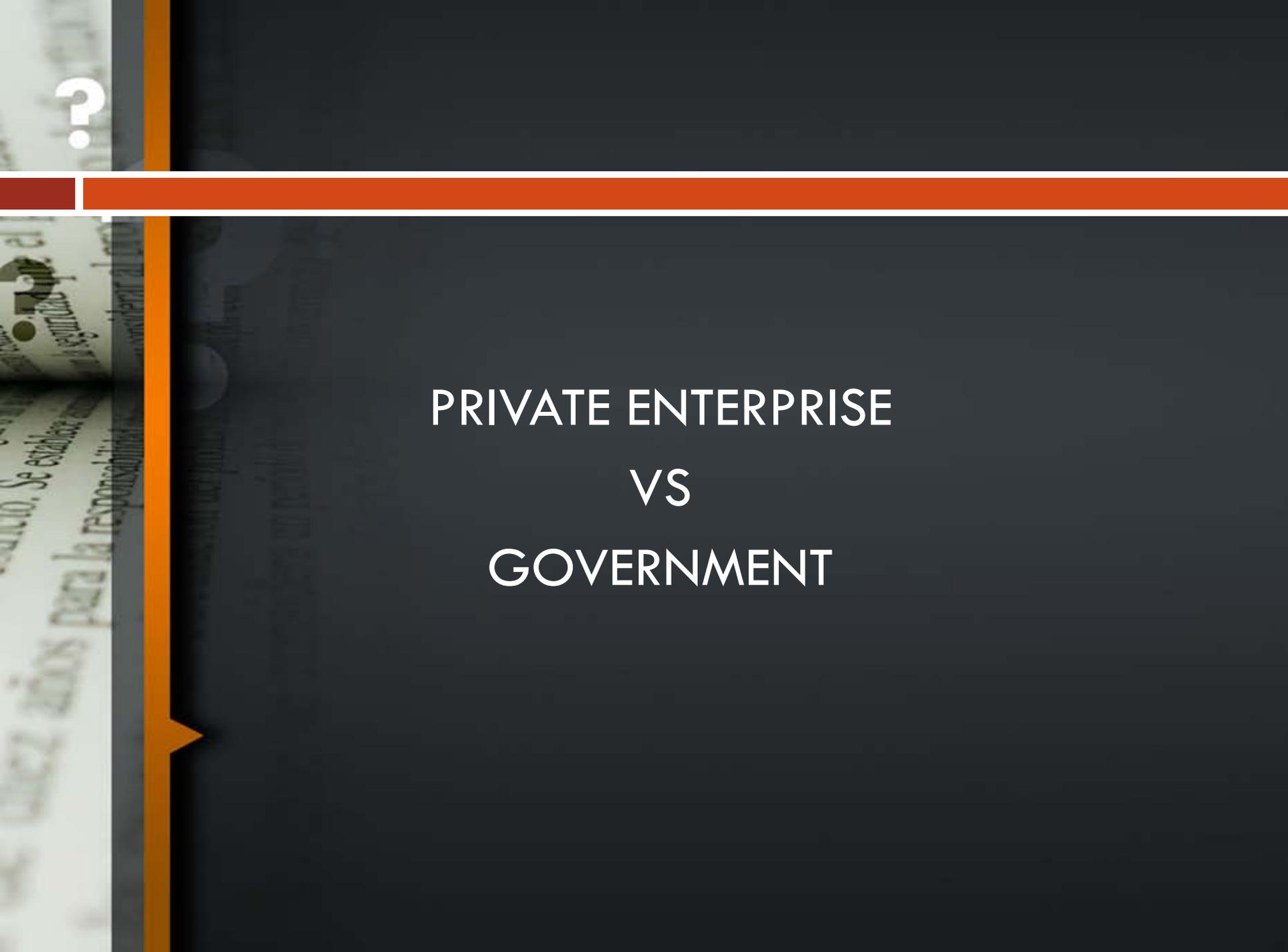
August 31, 2015

Prepared by Jeff Tyne and Sonia Andrews

# Outline

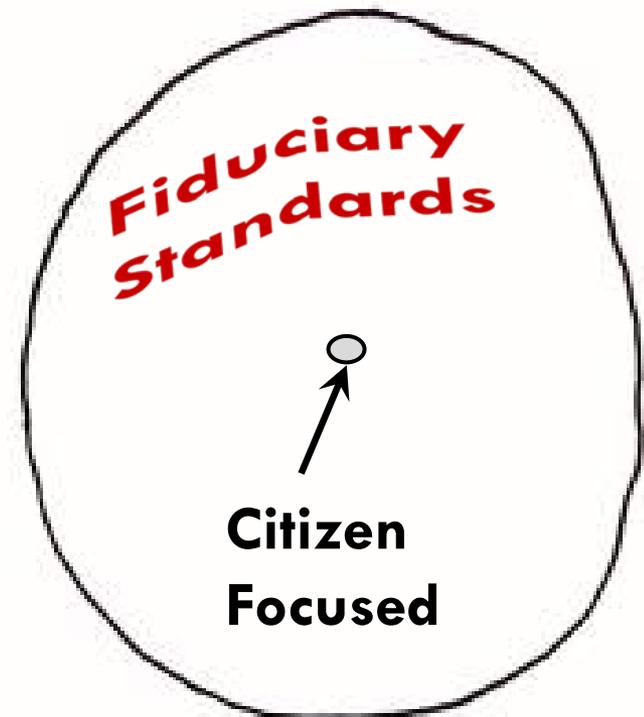
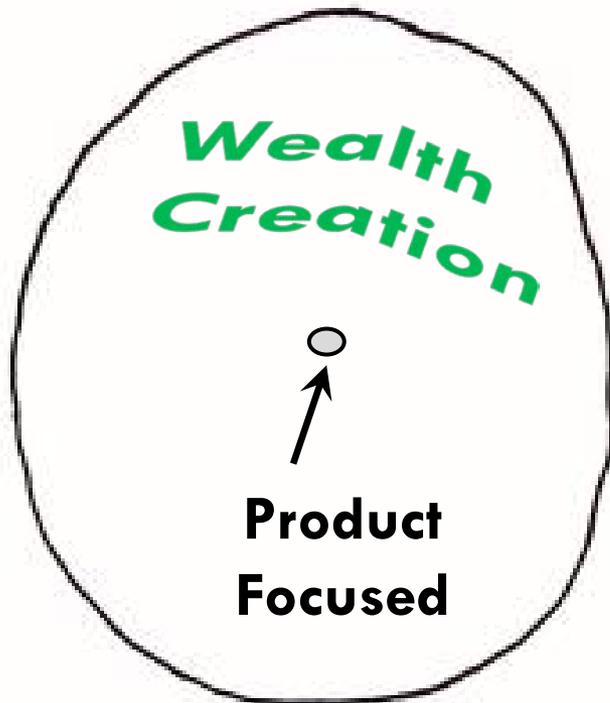


- Private Enterprise vs Government
- Government Accounting 101
- Budget and State Laws
- Managing City Finances

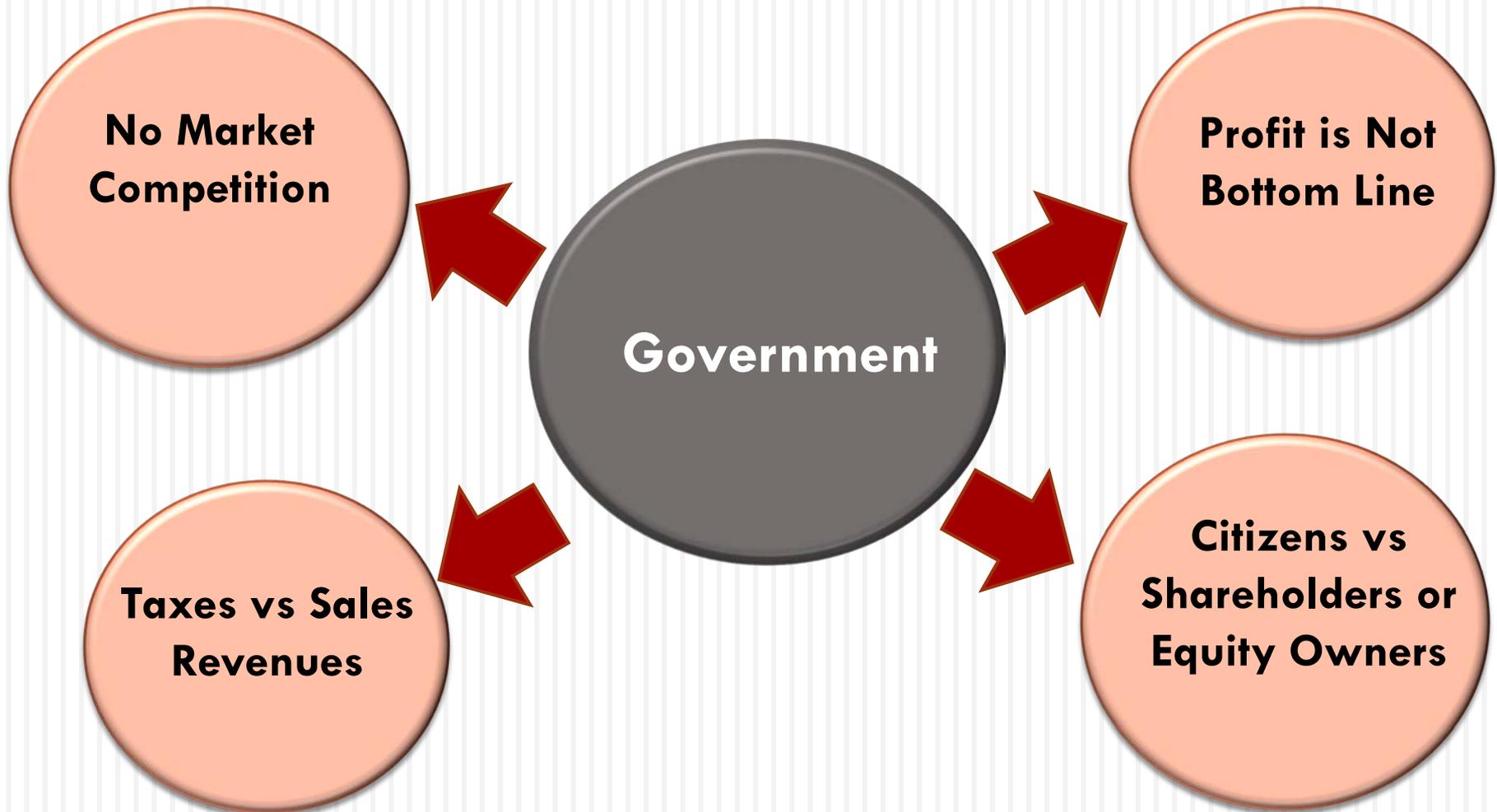


PRIVATE ENTERPRISE  
VS  
GOVERNMENT

# Private Enterprise vs Government



# Government Environment



# Should Governments Run their Financial Matters More Like a Business ?

In a lot of ways, we do but the difference is the “FOCUS”

## Private Sector

- Make money
- Max price market will bear
- Supply and demand principles
- Business transactions are “voluntary”
- Customer benefits
- Short term returns
- Subject to dissolutions, buy-outs, bankruptcies

## Governments

- Provide services to citizen
- No direct relationship between taxes and services received
- Supply and demand doesn't apply
- Taxes are for the most part “involuntary”
- Long term Societal benefit, customers include voters, tax payers etc
- Longevity

# Private Enterprise Responsibility

- ☑ **Success of business, maximize profits and returns**  
to owners/shareholders
- ☑ Comply with **Federal, State and Local Laws**
- ☑ Comply with **National Accounting Standards**  
prescribed by the Financial Accounting Standards  
Board (FASB)

# Government Responsibility

- ☑ **Fiduciary Responsibility** to manage public funds in the most responsible and accountable manner
- ☑ Comply with **State Laws/ Budget Laws**
- ☑ Comply with **National Accounting Standards** prescribed by the Governmental Accounting Standards Board (GASB)

# Users of Financial Statements

## Private Sector

- Investors, Owners, Creditors, and others
- Want to see financial results – operating income, net income, cash flows, EPS
- Want to assess liquidity, debt to equity ratios, inventory turnover and other financial ratios
- Use financials to assess risk and return of investment

## Governments

- Bondholders, taxpayers, citizens, elected representatives, oversight groups, granting agencies and others
- Want to know how Government is doing financially
- Want to hold Government accountable (accountability and legal compliance)
- Want to know if Government is meeting budgeted public policy priorities (spending of current \$\$)
- Want Government to make better political, social and economic decisions

# Information that has Little or No Meaning to Governments

Net Income and Earnings Per Share



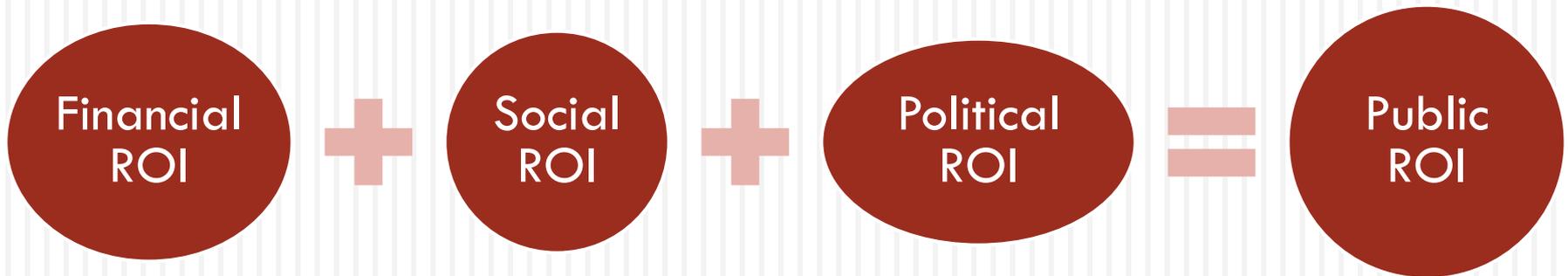
ROI or Fair Value of Capital Assets  
(capital assets provide services rather than future cash flows)



# Use of ROI in Governments

Economic Return is only one dimension of a government's effectiveness

Financial ROI is seldom the sole determinant of an investment decision



# Focus of Government Accounting, Budgeting and Reporting

Public  
Accountability,  
Transparency



How are Current  
Public Resources  
Used

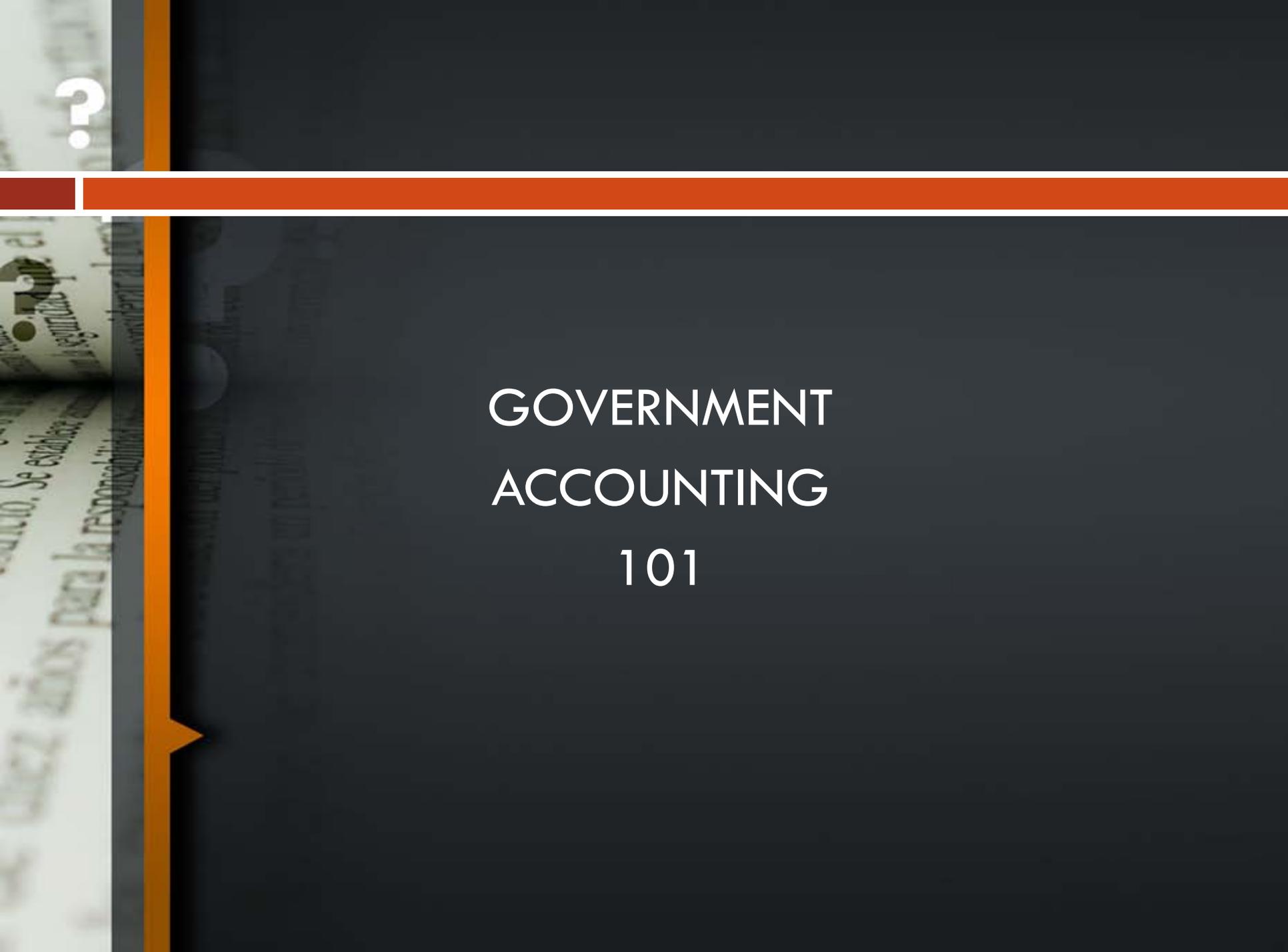


What Costs are  
Shifted to Future  
Generations



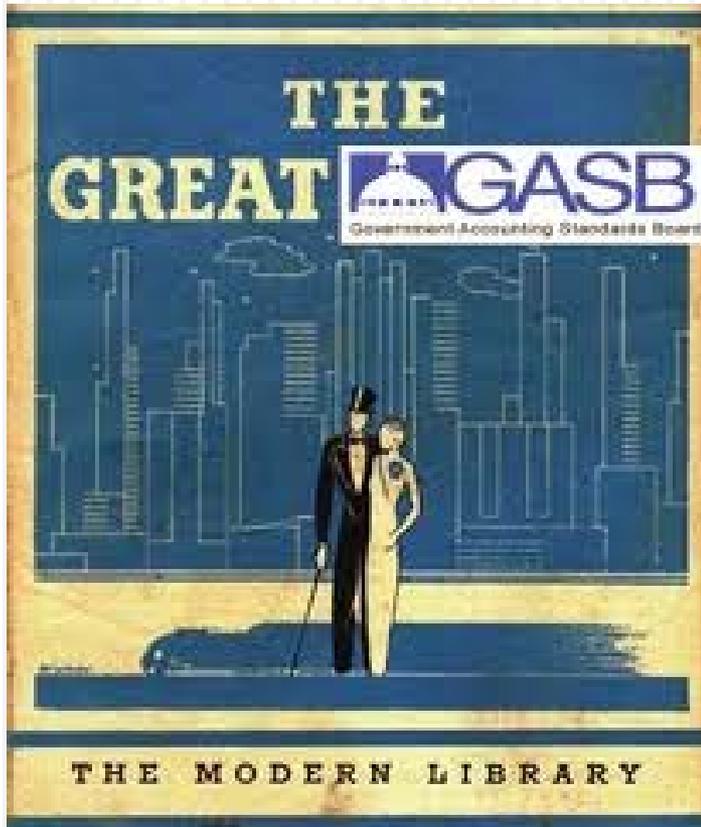
# Unique to Governments

- Multiple basis of accounting
  - ✓ Budget Basis
  - ✓ Modified Accrual
  - ✓ Full Accrual
- Fund Accounting
- Budget as a legal document
- CAFR



GOVERNMENT  
ACCOUNTING  
101

# National Accounting Standards



- GASB established in 1984
- Mission – establish/improve standards of state and local governmental accounting and financial reporting
- Defines Generally Accepted Accounting Principles (GAAP) for state and local governments
- State budget law requires use of GAAP fund accounting

# Fund Accounting - Most Unique Feature of Government Accounting

- An accounting tool to segregate resources related to specific activities
- Use to demonstrate compliance
- Similar to a segment of a business with multiple lines of businesses
- GAAP required fund types:
  - ✓ Governmental Funds
  - ✓ Proprietary Funds
  - ✓ Fiduciary Funds

# Governmental Funds...



## Fund Type

*General Fund*

## Use

*Day to day City operations*



*Special Revenue*

*Restricted revenue*



*Capital Projects*

*Large construction projects*



*Debt Service*

*Pay G.O. Debt*

# Proprietary Funds...

## Fund Type

## Use



*Enterprise Funds*

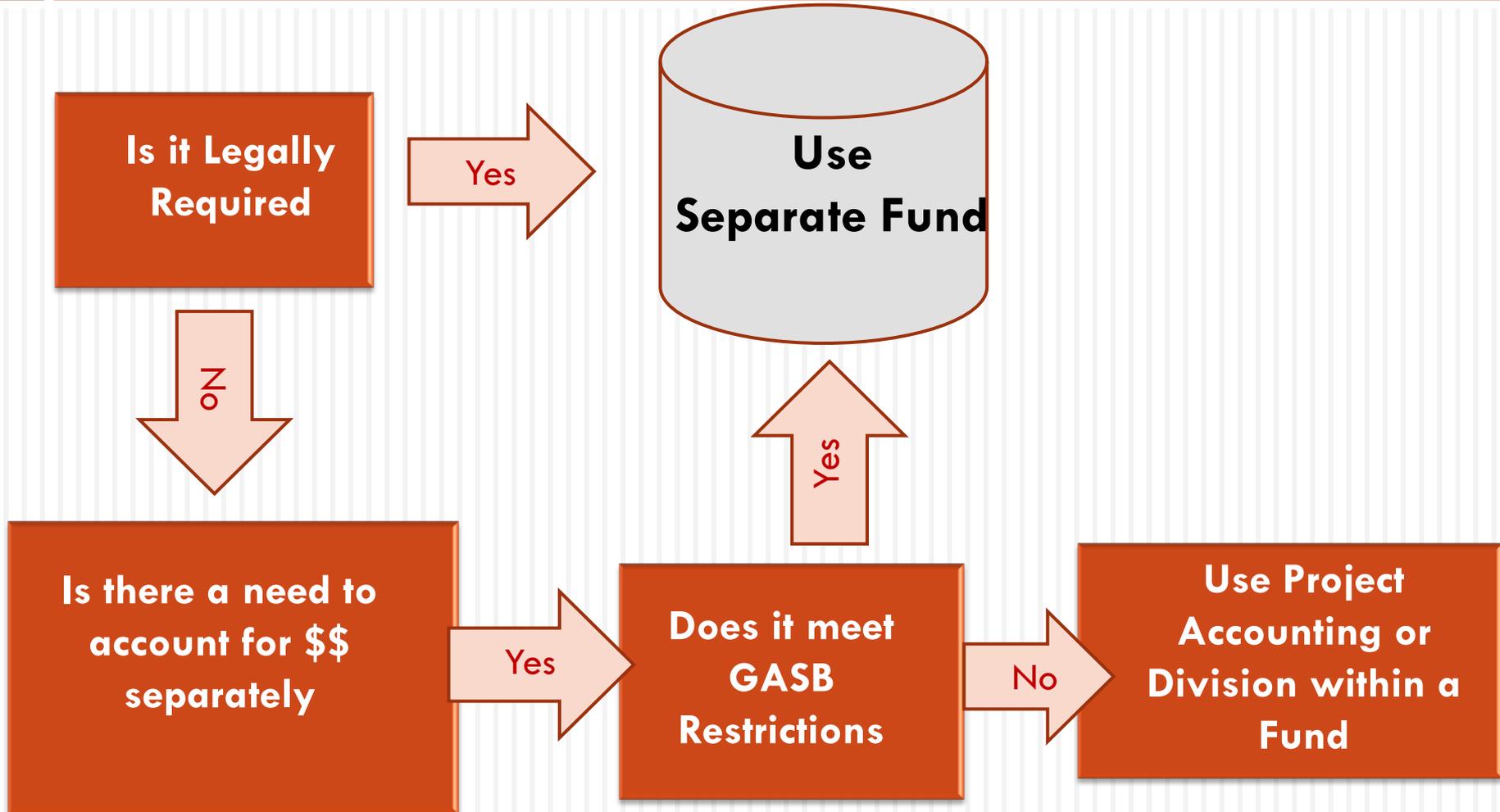
*Business operations  
(self-supporting through user  
fees)*



*Internal Service*

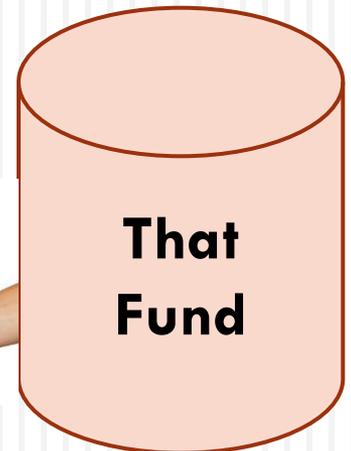
*Centralized services to other  
departments (cost  
reimbursement)*

# Proper Use of Funds



# Proper Use of Funds

Can You Follow the Money.....



# GAAP Accounting For Governments

## Budget Basis

**All Receipts** recorded as Revenues or Other Sources (including debt issues)

**All Payments** recorded as Expenditures or Other Uses (including capital expenditures and debt principle payments)

**Noncash Transactions Not Recorded.** eg:

- ▣ Depreciation / amort.
- ▣ Book gain/loss
- ▣ Noncash contributions

## GAAP Basis

### Government Funds (Modified Accrual)

**Revenues** recorded when measurable and available to pay current year liabilities

**Current Expenditures** recorded when incurred.

**Capital** recorded as current expenditures

**Debt** issue recorded as current resources

**Noncash Transactions** not recorded

### Proprietary Funds (Full Accrual)

**Revenues** recorded when earned

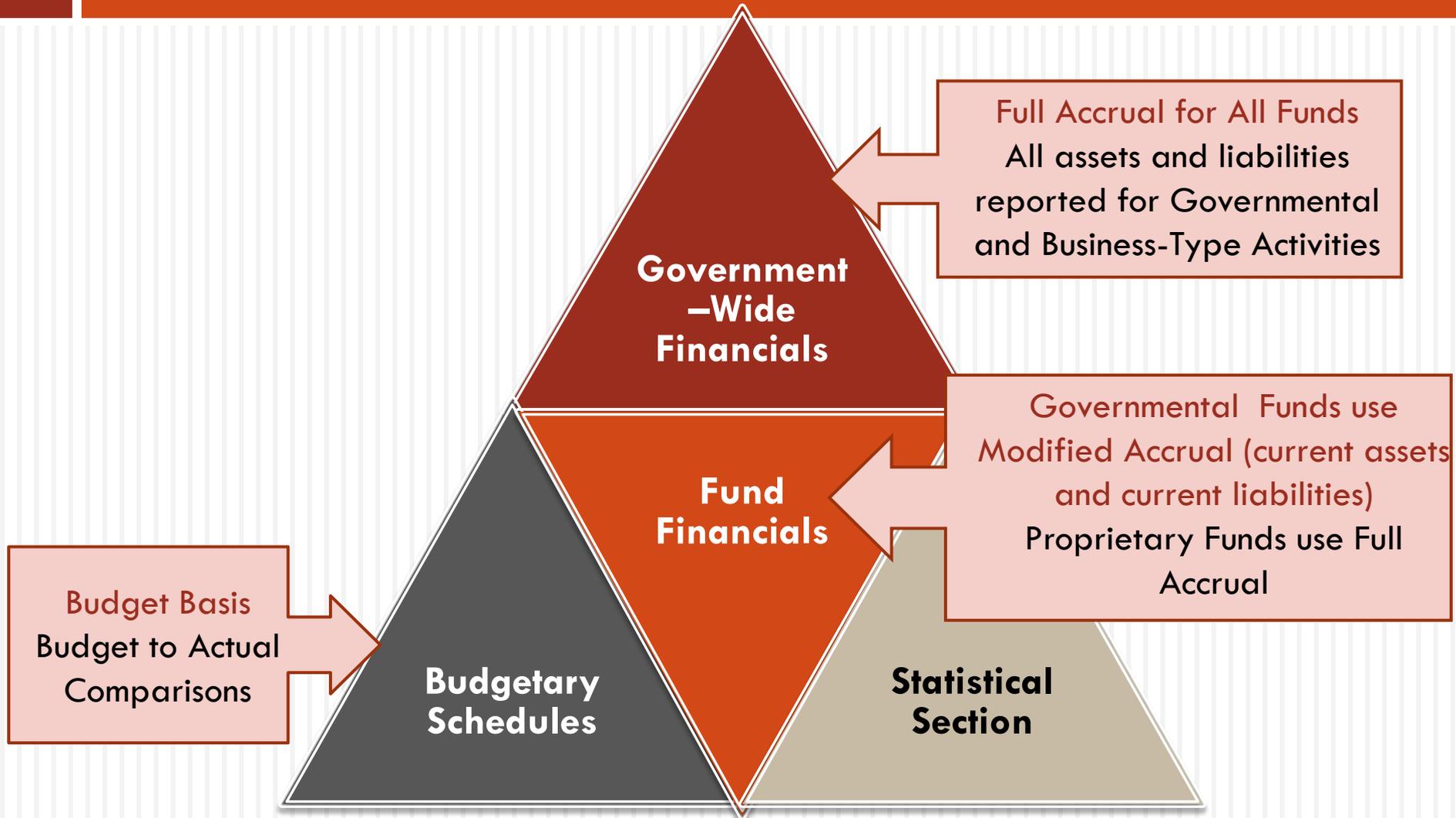
**Expenditures** recorded when incurred

**Capital** recorded as asset and depreciated

**Debt** recorded as liability

**Noncash Transactions** recorded to reflect flow of economic resources

# CAFR



# Interfund Activities



- Activities that take place between and among governmental, proprietary and fiduciary funds

# GAAP Divides Interfund Activities Into 2 Main Categories

- Reciprocal (arm's length exchange transactions)
  - Interfund Loans (Due to/Due from)
  - Interfund services provided and used
  
- Nonreciprocal (nonexchange transactions)
  - Interfund transfers
    - I. Capital or operating contributions
    - II. Residual equity (discontinued funds)
  - Interfund reimbursements

# Fund Balance and Net Position

## Government- Wide and Proprietary Funds

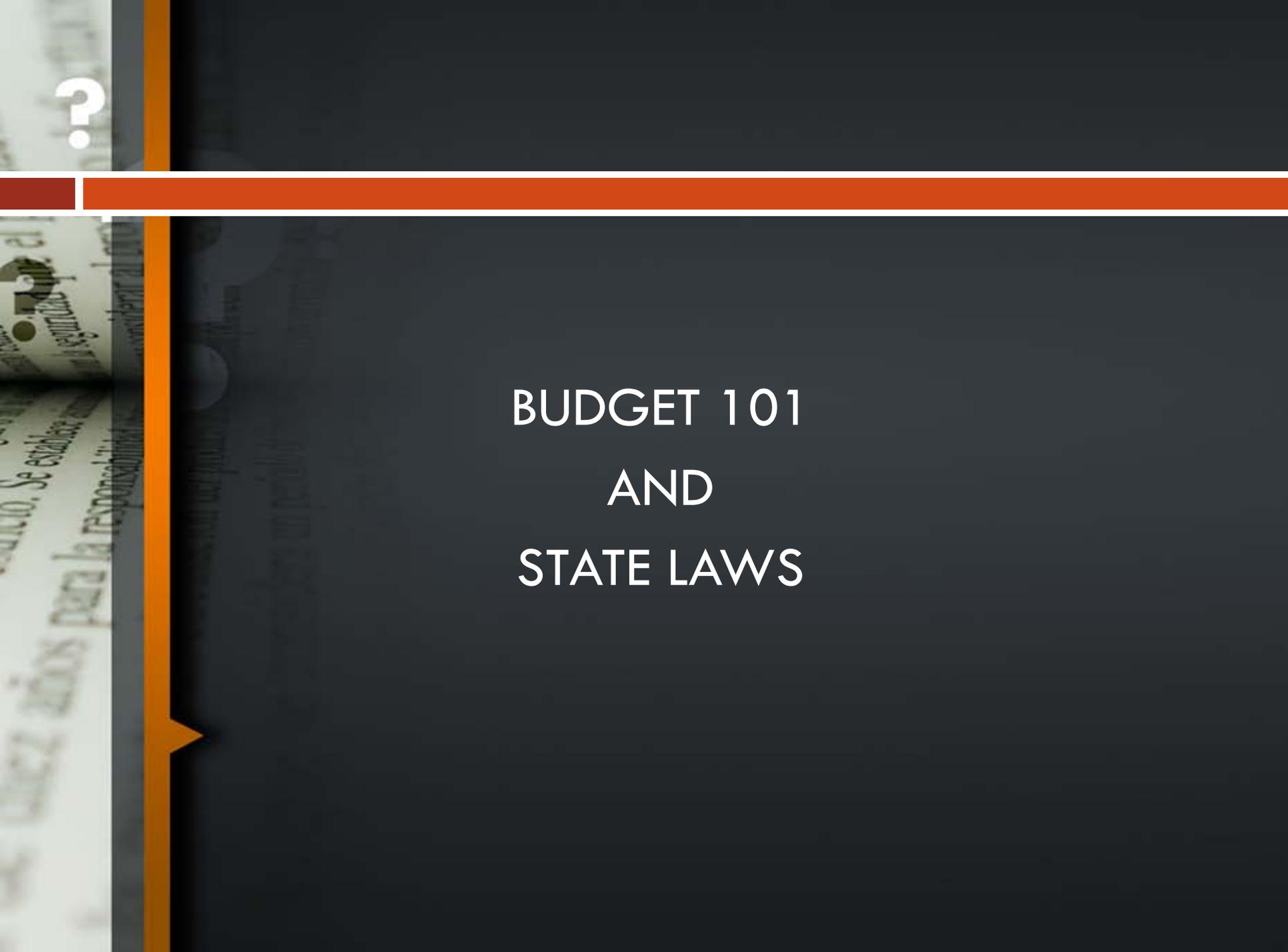
$$+ \text{ Total Assets} = \text{ Total Liabilities} = \text{ Net Position (Net Worth)}$$

## Governmental Funds

$$+ \text{ Financial Assets} = \text{ Liabilities normally liquidated with current financial resources} = \text{ Fund Balance } (\sim \text{ measure of liquidity})$$

# Components of Fund Balance

- *Nonspendable*      *Assets not convertible to cash (eg. inventory)*
- *Restricted*      *Externally imposed limitation (eg. grants, HURF)  
(imposed by creditors/by law)*
- *Committed*      *Council-imposed limitations (eg. policy reserves)  
(requires formal action)*
- *Assigned*      *Limited to intended use (earmarking)*
- *Unassigned*      *Residual net resources (surplus/shortfall)*



# BUDGET 101 AND STATE LAWS

# Why Do We Budget?

- *Financial Planning Tool*
- *Decision-Making Document*
- *Guide for Operations*
- *Improves Communication & Coordination*
- ***Public Sector- Measure of Accountability***
- ***Public Sector-Legal Device***

# It's the Law! A.R.S. sez...

(Article 42, Chapter 17)

- Budget Adoption (Appropriation=Legal Authority)
- “Everything” Should be Budgeted
- Voter Authorization (Bond Elections)
- “Amendments” Approved by Elected Body



# State Budget Law Requirements

- Use Fund Accounting in conformity with GAAP
- Separate Highway User Revenue Fund (HURF)
- Expenditure Limitation
- Property tax Limitations
- Publication of budget



# Roles in Budgeting Process

## Council



Set Policy Guidelines, Establish Priorities,  
Communicate position to Constituents

## Citizens



Offer perspective on service  
priorities, tax burden, level of trust

## Executive Mgmt



Prepare a Recommended,  
Balanced Budget,  
Incorporate Elected Priorities,  
Assess Service Levels

## Department Staff



Develop Program Objectives,  
Identify Service Levels,  
Prepare Budget Requests

# Contingency Budget



- Allows for current year unforeseen events
  - ▣ Natural disasters
  - ▣ Legislative actions
  - ▣ Citizen initiatives
  
- Cover unanticipated expenses
  - ▣ Unexpected one time expenditure needs
  - ▣ Grant awarded that was not budgeted
  
- Only available by Council action

# Budgeting for Reserves

- Provides cushion for unpredictable fluctuations
  - ▣ Stabilization reserves
  - ▣ Rainy day fund
  - ▣ Operating reserves
- Savings for future capital
  - ▣ Capital reserves
- Only available by Council action





# MANAGING CITY FINANCES

## What you need to know

# Mechanics of Sound Financial Management



# Review Your Fiscal Policies

- Balanced budgets
- Revenue policies
  - ▣ Use of one-time funds
  - ▣ Fees / Cost of service
- Reserve policies
- Cash management policies
- Debt policies
- Expenditure control policies



# Strategic Decision Making Process

- Are decisions made in accordance with fiscal policies
- Have you done the right analysis
  - ▣ Cost/benefit analysis
  - ▣ Life cycle cost analysis
  - ▣ Budget impact analysis
  - ▣ Financial risk analysis
  - ▣ Possibly an ROI analysis



# Is the City following Best Practices

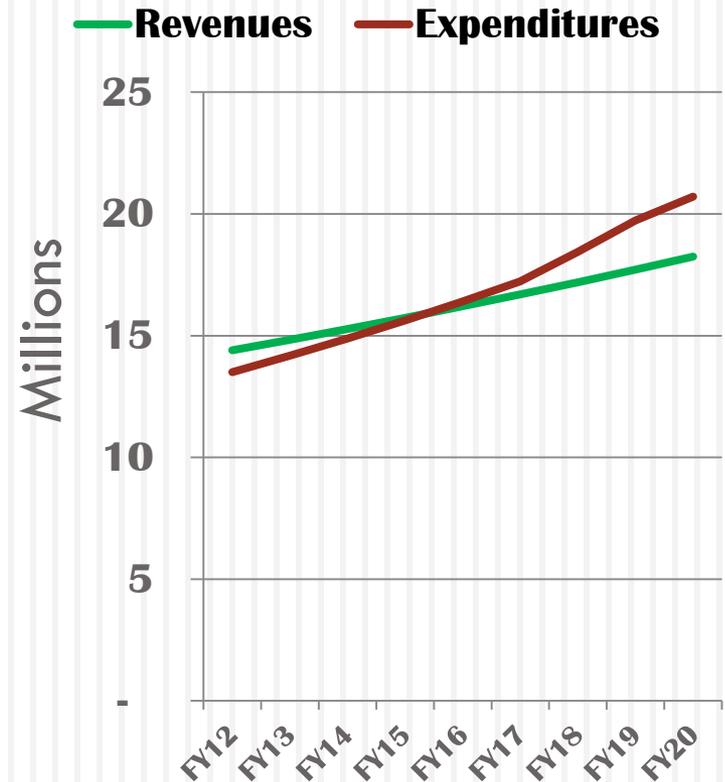
- Comparison with peer cities
- GFOA Best Practices

<http://www.gfoa.org/best-practices>



# How is Your Fiscal Health ?

- Understand your revenues and expenditures
  - ▣ 5 year projections - are on-going revenues going to cover expenditures as they rise
  - ▣ Are user fees covering costs
  - ▣ Use of one-time revenues



# Budget vs Cash Flow

---

Available Budget



Available Cash

# Monthly or Quarterly Review

---

**BUDGET**

**ACTUAL**

**ESTIMATE**

# How is Your Fiscal Health ?

- Adequate reserve levels (some examples below but your organization may have different reserve level needs)
  - ▣ General Fund reserves – 2 months or more of operating revenues or expenditures
  - ▣ Rainy day/ Stabilization reserves - % of revenues
  - ▣ Capital reserves – annual set aside - amount of depreciation
  - ▣ Debt reserves – largest annual payment



# How is Your Fiscal Health ?

- Understand your major obligations and position the organization to meet those obligations
  - ▣ Pension obligations
  - ▣ Debt coverage
  - ▣ Future capital needs
  - ▣ Expenses growing faster than revenues



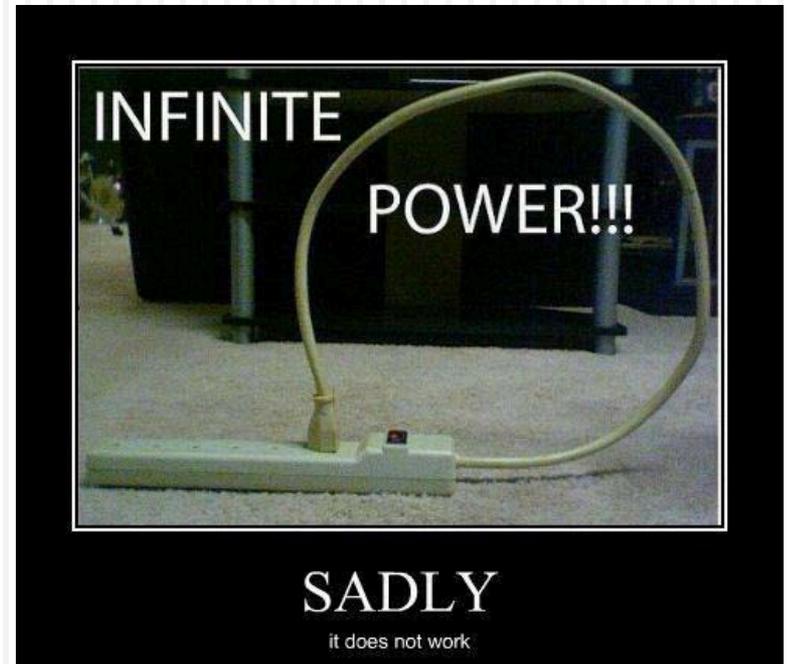
# In Arizona, Where Does the Money Come From?



# Revenue Sources in Arizona

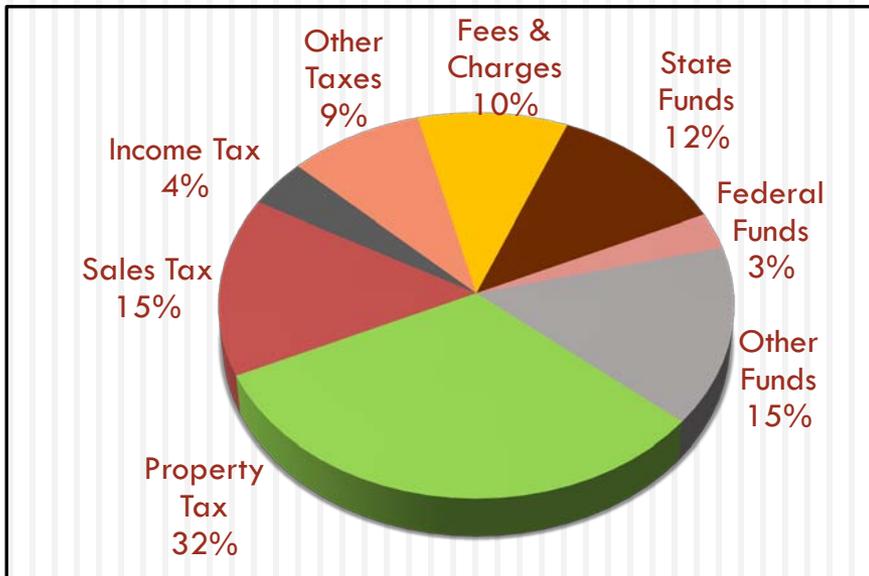
## Local Revenues

- ❑ Property Tax
- ❑ Local Sales Tax (TPT)
- ❑ Business License Tax
- ❑ Franchise Tax
- ❑ Fines & Fees
- ❑ Development Impact Fees

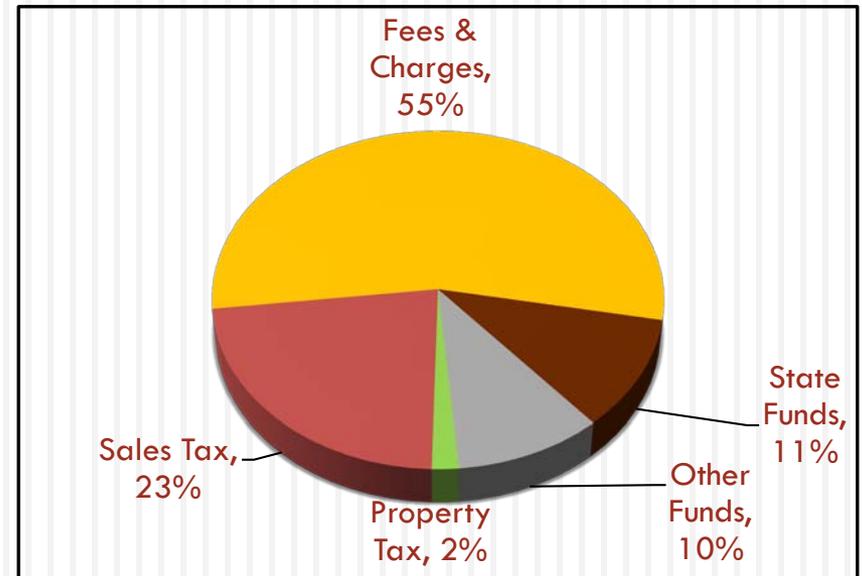


# Where Does the Money Come From...

## National Composition



## Your City



# Property Tax Requirements

- **Primary & Secondary**
  - *Primary may be used for any general government purpose*
  - *Secondary is directly tied to debt service*
  - *Both Require Voter Approval*
  - *Primary has 2% increase over maximum levy*
- **Truth-in-Taxation**
  - *Notification*
  - *Based on Levy not Rate*



# What's All this About...

## Transaction Privilege Tax (Sales Tax)

- Increasing Reliance
- Earmarked Uses
- Narrowing Base
  - Service-Based Activity
  - Legislative Exemptions
  - E-Commerce
- Legislation
  - Streamline Collection
  - Tax Construction Differently

# What About...

- ***State-Shared Revenues***

- *Urban Revenue Sharing (State Income Tax)*
- *State Sales Tax*
- *Highway User Revenue Fund*
- *Lottery Funding*



# In Arizona, Where Does the Money Go?

**HERE COMES THE MONEY**

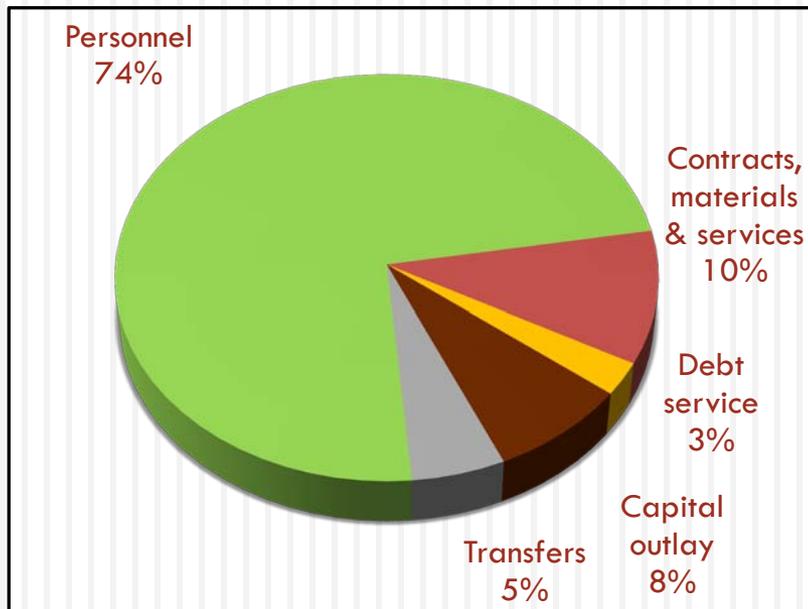


**AAAAAAAND IT'S GONE**  
meme-generator.net

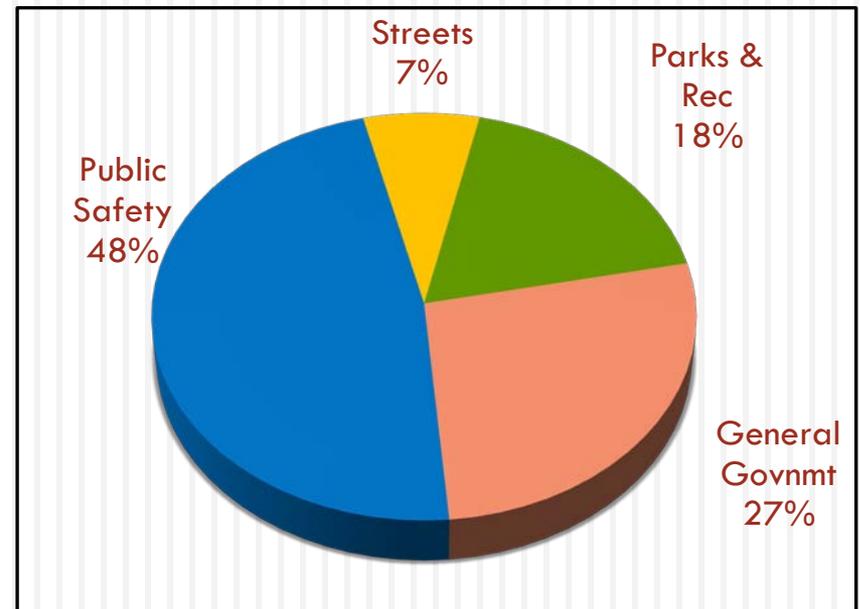
# Where Does the Money Go...

## Example City

### By Category



### By Program



# Who Should Pay For What Services ?

- **General Taxes and Other Revenues**
  - ▣ Police, fire, library, parks, Council priorities, administration
- **User Fees**
  - ▣ Recreation classes, building permits
- **Enterprise Funds-Full Cost Recovery**
  - ▣ Water, Wastewater, Solid Waste





# So..How Are Things Going for You?

## Some Questions to Ask...

Are Your Revenues Diversified?

Are You a Growing Community?

Are Costs Growing Faster than Revenue?



**THANK YOU !**

Jeff Tyne – [jeff.tyne@peoriaaz.gov](mailto:jeff.tyne@peoriaaz.gov)

Sonia Andrews – [sonia.andrews@peoriaaz.gov](mailto:sonia.andrews@peoriaaz.gov)